

# DEMYSTIFYING MARKET SYSTEMS RESILIENCE

## *An Introductory Brief*

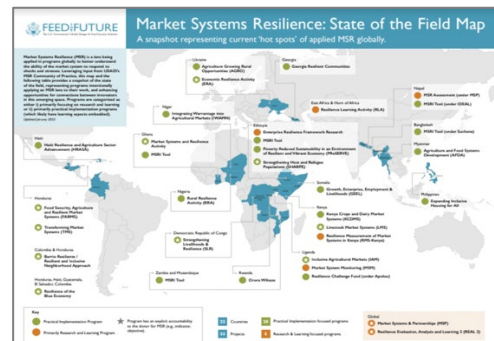


### Key Takeaways

- MSR provides a way to understand and design more risk-responsive programming, focusing on the capacity of market systems to absorb, adapt, or transform in the face of shocks & stresses.
- To understand what drives MSR, consider how the system is structured (e.g. its levels of diversity in business models and channels, connectivity and power dynamics between market actors) and predominant behaviors (e.g. competition and cooperation patterns, common business strategies). How do these exacerbate or diminish risk?
- MSR practice emphasizes stresses (as well as shocks), seeks insights from enterprises and market institutions (not just households), applies a unique analytical framework, and designs interventions to influence the system.

Why is it that some communities, firms, and economies are better able to manage risk and ‘bounce back’ than others? **Market systems resilience (MSR)** is a lens that supports analysis and programming to strengthen the ability of a [market system](#)<sup>1</sup> to respond to and manage shocks and stresses in a way that allows sustainability in the market system’s functioning that, in turn, supports households. MSR recognizes that, while market systems are constantly evolving, there are certain factors that shape how well the system as a whole holds up and evolves during challenging times to make it either increasingly resilient or more fragile. Better understanding and programming around these factors improve outcomes for market actors and the overall economy.

MSR is a relatively new and complex area that draws on traditional household level resilience frameworks, systems thinking, and market development approaches. These are not simple concepts, and the resources on MSR have often reflected this complexity – sometimes at the expense of easing adoption and application. This brief offers a simplified explanation of MSR and its key drivers, as well as examples of entry points for practitioners.



**A growing number of programs are recognizing the value of applying an MSR lens.** See USAID’s State of the Field Map to discover who’s doing what near you, with contacts and resources. This brief is part of a series of MSR resources and learning tools accessible [here](#).

## RESILIENCE TO SHOCKS & STRESSES: AN MSR LENS

Ideally, firms and industries can withstand a shock or stress in a way that allows them to absorb, adapt, or transform – leaving them in the same or better position than before, with the ability to pre-plan for knowable shocks so that these have far less of a future impact. For example, when roads were destroyed by earthquakes in Indonesia, transportation of goods adapted, shifting from trucks to motorcycles to animals; basic necessities

often remain available even in active conflict like in Syria; and many urban and rural enterprises transformed their business models during the Covid-19 pandemic to overcome movement restrictions and lockdowns. These are examples of how market systems were resilient in the face of shocks and stresses, including the firms, producers, consumers, and communities within them.

Markets experience many types of shocks and stresses, which seldom occur as isolated events. In an MSR lens, there is an expanded emphasis on market related shocks, not just natural or conflict related. Some shocks are knowable, such as seasonal cyclones or drought, while other shocks are unexpected, such as earthquakes, global price shifts, export bans, or political coups. And while shocks have historically received the bulk of attention in resilience thinking, MSR *elevates the relevance of market-related stresses in shaping firms' risk*; such as from extortion, diminished competitiveness, or ethnic and gender-based discrimination. Systems approaches encourage a comprehensive analysis of the larger risk landscape, including potential risks over time.

MSR also expands (one could even argue 'shifts') the *emphasis as to who a program seeks out in order to understand what shocks and stresses are a priority – moving beyond targeting households to including firms and institutions*, given the influential role they play in shaping markets. And as explored next, MSR uses a *unique analytical framing to interpret and 'make sense' of this information*, framed through what it tells you about the capacities of the market system, rather than the capacities of households – recognizing that while inter-related, they are distinct.



### MSR in Practice Spotlight: Asking the Right Questions

Programs often assume which stresses firms are dealing with. For example, ask any firm what their biggest barrier to growth is, and access to finance will almost certainly be top of the list. This results in programming around financial access.

But as one market systems development program in Central America found, when firms were asked “*What are the big risks are you facing? ‘How do you handle these?’*” they got an entirely different answer. These answers – in this case extortion from gangs, among others – can reveal powerful insights, including the links between resilience, enterprise growth, and competitiveness. In addition, programs often assume the significant impact of the Covid-19 pandemic on markets. Instead, many businesses identify more localized, systemic risks such as corruption as their greatest challenge. These insights can change a program’s intervention choices and partners it works with to better address the underlying drivers and disincentivize negative behaviors.

## WHAT DRIVES MSR? KEY DOMAINS

USAID and others have developed several frameworks<sup>2</sup> to understand what domains drive more resilient market systems and influence how shocks and stresses are managed by actors in that system. Implementers have applied and adapted these to different contexts. Most frameworks consider variations of the domains below (differing primarily in the number and organization of domains being considered).

MSR is best understood by *combining insights from multiple domains* to understand their interplay across the market, relating domains to specific contexts, and recognizing that a change in one domain is unlikely on its own to result in more resilient market systems.

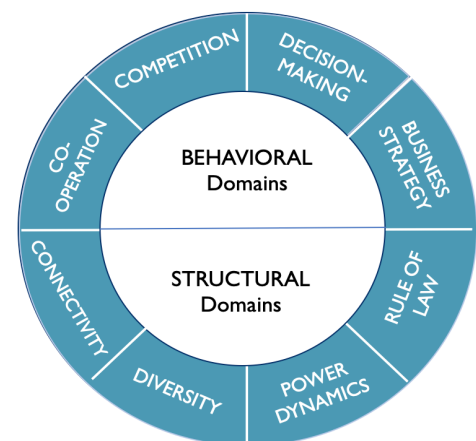


Figure: Key Domains of MSR

<sup>1</sup> [www.marketlinks.org/sites/default/files/resource/files/Market\\_Systems\\_Framework.pdf](http://www.marketlinks.org/sites/default/files/resource/files/Market_Systems_Framework.pdf)

<sup>2</sup> [MSR: A Framework for Measurement](#) takes a systems perspective to understanding how resilience changes over time using structural and behavioral domains and includes interview questions and metrics. [Guidance for Assessing Resilience in Market Systems](#) provides an adaptable process for USAID and implementers, including defining boundaries and objectives of focus.

Table 1: Key Domains to Consider in Assessing What Drives Market Systems Resilience in A Specific Context

Market System's Structural Domains (e.g. how markets are organized)	
<p><b>DIVERSITY</b></p> <p><i>How much variety is there in products, sales channels, business models, customer segmentation, etc.?</i></p> <p>Market systems that lack diversity are more likely to be susceptible to a single risk and less able to adapt to shocks and stresses. E.g., if all farmers in a given area only grow one crop and a pest targeting that crop emerges, the whole community will be affected. Markets that exclude women and certain groups limit innovation and market potential.</p>	<p><b>RULE OF LAW</b></p> <p><i>Who sets and maintains the rules (informal and formal)? Are they consistent and fair?</i></p> <p>High incidences of corruption, favoritism, cartels, and discrimination undermines MSR as laws, grades, and standards are inconsistently applied and enforced. Systems are more resilient when formal and informal rules are clear, transparent, and applied consistently.</p>
<p><b>CONNECTIVITY</b></p> <p><i>Who's trading and talking with whom, why, and how is this changing over time? How and to what extent do market actors interact across geographies, ecologies, and social groups?</i></p> <p>A market system is more able to withstand shocks if market actors have formed new and different types of connections rather than being reliant on only one type of business relationship or geographic area, for example. Systems are more resilient with widespread patterns of business connections that lead to alliances, co-investment, value addition, and increased customer segmentation.</p>	<p><b>POWER</b></p> <p><i>Where and how is power concentrated and exercised?</i></p> <p>Rather than using power to attain monopolies or unfair bargaining power, market systems are more resilient when power is wielded for firms to build alliances, incentivize standardization, or co-invest in value addition upgrades. This facilitates more even allocation of risk in the system.</p>
Market System's Behavioral Domains (e.g. norms that shape what most people and market actors do)	
<p><b>COMPETITION</b></p> <p><i>To what extent is there rivalry between market actors?</i></p> <p>Competition can be positive or negative depending on how and why it is happening. E.g., market systems are more resilient if competition drives innovation, improved efficiency, and attentiveness to consumer needs, instead of colluding to crush competition.</p>	<p><b>BUSINESS STRATEGY</b></p> <p><i>To what extent do business strategies proactively plan for risks? To what extent are they fair and generate customer value?</i></p> <p>Less resilient strategies include maximizing unfair practices such as capturing unfair margins or being unwilling to invest in alliance building or in customer relationships. More resilient business strategies plan for knowable risks and generate value for customers as a strategy for increasing growth.</p>
<p><b>COOPERATION</b></p> <p><i>How are market actors collaborating to achieve a common purpose or function?</i></p> <p>Firms can cooperate by improving their enabling environment, establishing supply chain alliances, undertaking co-branding agreements between exporters, or making agreements to share production capacity. Cooperative relationships can enable collective action on knowable risks.</p>	<p><b>DECISION-MAKING</b></p> <p><i>To what extent is evidence used to identify solutions?</i></p> <p>More resilient systems show patterns of firms and organizations using evidence to inform decisions. This improves, for example, the level of objectivity and rigor of analysis of customers and competitors. The problem-solving ability of firms allows the market system to better identify and address knowable risks related to shocks and stresses and to plan accordingly.</p>

Resilience lenses provide important insights into how different market actors adapt their business strategies to better manage risks, and the range of effective coping mechanisms they have evolved to provide a level of resilience. In some communities, pastoralists raise cattle, growing and keeping their herds for increased social capital to leverage in times of need, while elsewhere, cattle are raised simply to be resold for income. SME owners in some countries run multiple SMEs to move income between businesses to avoid exposure to tax

collectors, while others run multiple SMEs to mitigate the risk across multiple rapidly occurring shocks. In some countries, businesses strive to grow and increase income, while in others they avoid growth to circumvent conflict from standing out.

Family and friends in social networks near and far have traditionally provided much needed support to businesses and households, from short term loans to remittances, longer-term investments, and access to business contacts. But informal communal social safety nets can also break down with repeated shocks and stresses, and many households struggle to cope. Market systems can, even when immature, provide important services and products to support household to better weather shocks and stresses. More mature market systems can provide a greater set of tools and tactics that often allow households to manage shocks and stresses better, including the ability to mitigate or neutralize some risks.

## INTERVENTION EXAMPLES

MSR programming is very context dependent; yet as explored more below, interventions in several broad areas have the potential to change how the market is organized and predominant behavioral patterns of market actors, enhancing the key domains of MSR described above – connectivity, diversity, power, rule of law, cooperation, competition, business strategies, and decision-making.

Practitioners use an MSR framework to strengthen ways markets can reduce risks **by protecting life, health, assets, and wealth**, improving access to products and services in healthcare, food, shelter, and insurances by:

- strengthening supply chain connections to move key assets from impending dangerous shocks;
- pre-planning through disaster management plans and supportive business strategies (such as pre-season stakeholder meetings to discuss expected shocks and stresses, improved information or analysis capabilities such as weather forecasts, or mobile networks that improve connections);
- changing livestock business strategies and practices in response to emerging weather shocks (such as shifting to camels or goats from cattle, camel leasing in Sudan, shifting cattle to feedlots in Kenya);
- improving innovation, quality and retail distribution of diverse preventative and risk-reducing products and services (such as for healthcare, crop protection, animal vaccinations, shelter construction, or weather index, health, or home insurances).

Practitioners use an MSR framework to catalyze market actors to **generate more income to help households prepare for, weather, and rebound** from shocks and stresses, such as through facilitating:

- changes in supply chain management strategies and tactics, including facilitating lead firms to invest in more structured, reliable, win-win community supplier relationships, shifting power and cooperation;
- retail distribution lead firms' investment in distribution channels, including supporting local retail outlets or agent networks that can grow and hire locally, offering tailored services and access;

### Improved Social Inclusion Supports MSR

Social inclusion not only has the potential to be good for business, it can also strengthen the resilience of market systems. For example, supporting the entry and success of larger numbers of women or minority-owned businesses into an industry can support diversity of products, ideas, sales channels, and network connections that strengthen the system's capacity to absorb, adapt to, and transform in the face of shocks and stressors, propelling competitiveness. Applying an MSR lens can also reveal deeper reasons about how the system's structure and norms will influence social inclusion outcomes. In the above example, firms would need to cooperate more with traditionally excluded actors and increasingly value the participation of socially-marginalized groups as leaders, employers, clients, and suppliers. Financial institutions and other lead firms would need to draw on evidence related to commercial benefits (such as the [return on investment from social inclusion](#)) as a core element of their business *decision making* on how best to engage socially-marginalized groups as clients, staff, or suppliers.

- emergence of local service markets that leverage local, under-utilized labor (such as youth, adding positive competitive pressure);
- services that ease and improve community members' ability to generate incomes (such as tailored financial services, youth vocational training or job placement, and mobile solutions for connectivity);
- opportunities that are likely to emerge in response to a shock or stress (such as demand for crop protection, construction, or transportation).

Practitioners use an MSR framework to **improve how businesses manage risks by generating more tools and capacity** to manage shocks and stresses, such as working through market actors to facilitate:

- more diversified and local supply chain management strategies that fully integrate community members as suppliers, aggregators, or processors;
- enhanced capacity and influence of market institutions to advocate for needed, risk-reducing policy shifts;
- more competitive retail distribution networks driven by value delivered to community members;
- interconnected systems that support risk reduction for businesses and households (such as formal social safety nets, emergency response, home construction policies, and consumer watch-dog services).

## MSR AND M&E: TRACKING HOW MSR CHANGES OVER TIME

We can measure changes and trends in market systems. For example: *'Is the number of products or market channels in the local economy more diverse than before?' 'Have norms around public-private cooperation or conflict-resolution mediation evolved?'* However, measuring MSR is more complex. Programs can monitor how various domains of MSR are changing (such as connectivity, diversity, or perceptions on how productive collaboration is across an industry) but resilience itself can only be measured in response to a shock or stressor. Therefore, we would also need to assess whether market actors are reacting differently in response to shocks and stresses as a result of strengthened system level capacities. For example, *'when the global price drops for a key commodity, does the industry pivot?'* *'After a flood, are social protection measures activated?'*



### MSR In Practice Spotlight: Reflect and Adapt

In East Africa, a nutrition-sensitive market development program team meets quarterly to reflect on the state of MSR in the animal-source foods market system. Using a mix of market data, firm-sourced perceptions, and staff observations, the team uses these discussions to adjust portfolio strategy, partnerships, and manage adaptively.

MSR monitoring tools from implementers and country-specific research data are spotlighted on [www.Marketlinks.org/MSR](http://www.Marketlinks.org/MSR).

Tracking how MSR changes over time is essential, particularly how the market system is changing to manage risk and increase resilience capabilities. Changes can be captured at multiple levels, including community, firm, industry and the overall market system. When appropriate, meta-level changes in mental models and cultural beliefs can also be captured. A good and common proxy for measuring MSR at a meso and macro level in a market system is to use firm-level behavior patterns, if there is a representative sample. For example, *'what are the dominant firm patterns in how they plan for, respond to, and manage during shocks and stresses that can give insights into systemic biases/incentives?'*

## APPLYING MSR: HOW TO GET STARTED, WHEREVER YOU ARE

MSR is an important lens that belongs in our programming. Here are several tips towards application:

- I. **Leverage What you Already Know.** "Diagnosing" the state of resilience in your target market system doesn't necessarily require you to do a standalone complicated analysis, although this rigor can be useful in shaping evidence-based decisions. Many programs collect good data during upfront market analyses and

through implementation experience about diversity, connectivity, and many other MSR domains; they just don't view this information through a lens of how it exacerbates or diminishes the ability to manage risk and vulnerability at the system level and for their target population(s). Use what you already know.

2. **Zoom In.** Although MSR is ultimately focused at the systems level, practically, programs look to firms and networks of firms as influential actors that in aggregate can tell us a lot about the system. Ask your key stakeholders: *'What are the greatest risks to your business now, and how do you see these changing?' 'What is the impact of those risks on your business?' 'What are some of your coping strategies?' 'How have your coping strategies changed over time?'* This iterative form of risk analysis can help identify and analyze potential issues over time that will shape our understanding of reactions to shocks and stresses. Look to the questions in Table 1 under each MSR domain as a guide for additional questions to explore. **Then, Zoom Out.** Ask *'What trends are emerging?'* Filter these insights - from data, observations, and experience - through the MSR Framework. Involve your stakeholders in this through one-to-one discussions or facilitated industry workshops. Ask *'What are shared vulnerabilities?' 'What is driving this?' 'What could change to make it more resilient?'*



#### **MSR in Practice Spotlight: MSR Research and Team Workshop Leads to Intervention Shifts**

One program in a conflict-prone region of West Africa is working at the intersection of agricultural development and MSR. They added questions into their baseline survey asking firms (e.g. local agro-processors, microenterprises) what their biggest shocks and stresses are and how these impact operations (e.g. on revenue, cost of doing business, customer confidence, and lending risk). They also asked smallholder farmers their biggest shocks and stresses, including market-related ones (e.g. reduced demand or market price for their products). Then, they hosted a multi-day team workshop to align on what an MSR lens means, talk through the findings, and assess what this meant for their program's actions. They recognized that information relating to individual domains needed to be triangulated across domains to be well understood, and discussed *'What would have to change for MSR to improve?'*

Using these insights, they revisited their theory of change to specifically look at it from a resilience lens. For example, they asked *'How can we facilitate systemic change that builds resilience, so that market systems work better and deliver pro-poor solutions, even in the face of shocks and stresses?'*

**Intervention shift:** Agro-processors had very few relationships with buyers in other regions (e.g. low connectivity), so when conflict made the news, demand dried up, because those buyers relied on external information and news rather than trusted relationships to shape their perceptions of risk in the area. The program decided to explore building cross-regional information channels and relationship-building networks to smooth the flow of information for a more resilient system, which helps enterprises and the households they buy from and sell to.

3. **Recognize the Market Context.** Consider which market functions are weak or not present that could support businesses and households to be more resilient. For example, in humanitarian programs, start by considering the range of market functions that can protect life, health, assets, and wealth through products and services in healthcare, food production, shelter, and insurances. For programs working in more stable economies, start by considering market functions that can speed up and smooth out commercialization processes such as through strengthened supply chains and retail distribution systems.



At its core, MSR is about the interplay between risk, the structure and behavioral norms at the level of the market system, and sustainability. In addition to guidance above, if you are looking to apply MSR to your programming, make sure to check out the [MSR State of the Field Map](#) (2022), and see if someone is already working in your country or has applied MSR in a similar context. Reach out and start a conversation. And dive deeper into USAID's curated library of MSR-related resources at [www.Marketlinks.org/MSR](http://www.Marketlinks.org/MSR). Lastly, keep in mind – there remains a lot of room for experimentation and much to still learn about MSR.